

1 Q Did you ever tell anybody you were going to put a new  
2 road in?

3 A No.

4 Q Was there anything wrong with the existing road?

5 A It's pretty dangerous. I understood the city was  
6 thinking of doing something because they built an Armory up here  
7 over in this area somewhere.

8 Q Above?

9 A Yeah. Above us. And you come down in here and I  
10 don't know where it goes but somewhere, maybe it's down in here.  
11 And Richmond Hill Drive is the main way to get there and  
12 there's also this is all a big park. And they were talking  
13 about trying to reroute the road at some point but I never saw  
14 any plans or details on it.

15 MR. NELSON: Okay. I'd like to talk about the  
16 litigation against the Michels. Let's go off.

17 (Thereupon, a recess is taken from 2:32 p.m. to 2:38  
18 p.m.)

19 (Thereupon, Dusty L. Bredeson leaves the examination  
20 room.)

21 Q Dr. Gray, we're back on the record. Exhibit 4 is a  
22 letter that was sent to attorney Payne that's a supplemental  
23 document demand, I don't know if you've ever seen it but it  
24 basically is asking for additional records. And we'll be  
25 provided additional records address, I just want to make sure

1 that we have in the EUO transcript record that there were two  
2 requests for records, one as part of the EUO letter and one  
3 supplementing it dated May 13th, 2009.

4 Is that your understanding, Dr. Gray?

5 (Thereupon, Exhibit Number 4 is marked for  
6 identification.)

7 A Yes, it is.

8 Q Okay. Dr. Gray, I'm showing you what's Exhibit 10.  
9 Can you take a look at that letter?

10 (Thereupon, Exhibit Number 10 is marked for  
11 identification.)

12 A Yeah, I'm familiar with it.

13 Q Did you receive that letter around the same time it  
14 was written?

15 A Yes. It was faxed to me.

16 Q Who gave it to you?

17 A My sister's secretary faxed it to me.

18 Q Your sister's an attorney so was she representing  
19 the interest of The Hammocks at the time?

20 A Yes.

21 Q Does she still represent the interest of The  
22 Hammocks?

23 A When we need her.

24 Q Not to belabor the point but she was authorized to  
25 write this letter as the attorney for The Hammocks, right?

1 A Right.

2 Q So do you know why this letter was written to Mr.  
3 Sloggart?

4 A Yes because we were in foreclosure and we were  
5 getting ready to file bankruptcy and he had refused to transfer  
6 the property that was partially in his name and Gateway  
7 Properties' name because of the initial 1031 exchange. He had  
8 refused for the past few years to transfer it to The Hammocks as  
9 originally agreed upon and he did not want to declare Chapter 11  
10 for the Gateway and he was going to let the Michels take half of  
11 the property back. So this was an attempt to spur him to do  
12 what he had agreed to do long before.

13 Q Okay. Where is the property that---

14 A The----

15 Q Let me finish my question. Where was the property  
16 that's the Gateway Park property?

17 A The 40 acres had been titled in Lake Norman  
18 Pavilion, The Hammocks, and Gateway Park Properties names.

19 Q What 40 acres?

20 A The 42 -- 41.

21 Q On that map?

22 A On that map. Yeah.

23 Q Number 2?

24 A Right. Number two.

25 Q When did it become titled to Gateway Park

1 Properties' name?

2 A When we closed initially.

3 Q Do you have an interest in Gateway Park Properties?

4 A No.

5 Q Is it an LLC?

6 A Yes, it is.

7 Q Who has an interest in Gateway Park Properties?

8 A Jim Sloggart and Karen Sloggart.

9 Q Is Karen his wife?

10 A Yes.

11 Q Parcel number two on Exhibit 18b, is that still in  
12 Gateway Park Properties' name?

13 A I honestly don't know. His lawyer -- he finally  
14 retained a lawyer up here and supposedly they went to the  
15 bankruptcy court to get okay to transfer to The Hammocks. And I  
16 assume that occurred. I do not know for sure.

17 Q You said something about at some point he was going to  
18 transfer half of it to the Michels?

19 A No. He was going to transfer his share to the Michels.

20 Q How do you know that?

21 A Because he wasn't going to file Chapter 11, he was  
22 going to let them foreclose on Gateway Park Properties' percentage  
23 of ownership. The percentage in the property was 50 percent but  
24 his partner -- the Gateway Park Property only owned I don't know  
25 8 percent or 7 percent of the partnership so.

1 Q Getting to this letter in Exhibit 10 he's identified  
2 as being the developing partner?

3 A He was.

4 Q Was that an agreed-upon title that he would be the  
5 developing partner?

6 A That was in the partnership agreement that he has --  
7 he got -- the way it was set up in the partnership agreement is  
8 he got a percentage for developing it.

9 Q For the efforts of developing it?

10 A Efforts of developing it.

11 Q The letter says that he's breached his agreement  
12 with The Hammocks, how did he breach it?

13 A First, he didn't develop the property in Charleston  
14 and insisted in getting the development fee percentage of that  
15 and then up here he's not developed anything. As far as we know  
16 he's not -- not one single thing has been done.

17 Q The paragraph that's enumerated with the number one,  
18 "The Hammocks is not going to sit by and let you swindle the  
19 Hammocks like you did on the Mt. Pleasant property." What is  
20 that referring to?

21 A I just told you. He insisted on getting the  
22 percentage that went to the developer even though he didn't  
23 develop anything.

24 Q There's a figure of \$30 million referenced in this  
25 letter as to the loss, "Your failure to carry out your

1 commitment to do such development of RHI adjacent land has  
2 deprived the Hammocks of at least \$30 million." Do you know  
3 where the \$30 million figure came from?

4 A That was sort of our estimate of what our profit  
5 would have been if he had developed it.

6 Q Where did the \$30 million estimate come from?

7 A Just figuring out what -- we did some figures very  
8 early before we bought the land and we figured the profit and an  
9 optimal profit would probably be about \$70 to \$80 million and I  
10 just -- when she was doing this I said just put 30 million  
11 because the market's terrible right now and we probably wouldn't  
12 have made what we originally thought.

13 Q Are those figures recorded anywhere?

14 A No.

15 Q And then, "a loss of over 12 million in property  
16 which is now in foreclosure in large part due to your failure to  
17 perform said agreed development." Is that 12 million---

18 A For the land.

19 Q And Richmond Hill Inn?

20 A No. It was the land that we were going to lose.

21 Q Which land were you going to lose?

22 A The 40 acres. Cause see if the Michels were able to  
23 try to get title to half of it then there's another procedure  
24 they could do to claim the whole thing in North Carolina. I  
25 don't know what it's called but.

1 Q And there's a demand of \$42 million from Mr.

2 Sloggart, were you aware that that demand was going to be made  
3 before this letter was written?

4 A Yes.

5 Q Did you agree to that demand?

6 A Yes. I didn't think it was that much but. We  
7 demanded 9 million.

8 Q Well, if you look at the last sentence in paragraph  
9 1, sir, it says, "Therefore, the Hammocks is hereby demanding 42  
10 million dollars in damages."

11 A Okay, yeah, I see that.

12 Q So when you just said that you didn't think it was  
13 that much, how much did you think it was?

14 A I thought it was 32 million.

15 Q What's the basis of 32 million?

16 A I told you that's what we estimated we probably  
17 would have made in this market if we developed it.

18 Q Now, if you go down to paragraph number 2, it's a  
19 rather lengthy sentence, I'm going to read the whole thing just so  
20 we make sure we're talking about the same comments. "Your  
21 failure to so contribute the Gateway properties to the  
22 partnership in exchange for Gateway's interest in the Hammocks,  
23 has deprived the Hammocks of all of the property which it should  
24 rightfully own, resulting in the foreclosure of 12 million  
25 dollars of property and, in addition, resulting in damages to

1 Lake Norman Pavilion, LLC of \$3,500,000 of collateral on other  
2 properties that are now jeopardized by the foreclosure against  
3 RHI and such collateral of Lake Norman Pavilion, LLC." Can you  
4 tell me what that means, sir?

5 A Lake Norman Pavilion pledged \$3,500,000 worth of  
6 property in Mooresville to the Michels on this loan. And  
7 they're trying to foreclose on that, too.

8 Q So in addition to the \$42 million claimed in  
9 paragraph 1 you're also claiming 3.5 million?

10 A That's what Lake Norman Pavilion would be losing on  
11 property that is not related to Richmond Hill Inn.

12 Q How do we know it's 3.5 million that you would lose?

13 A That's about what it's worth.

14 Q How do you know that?

15 A Tax records.

16 Q And then the next page it says, "Your failure to  
17 live up to your obligations to contribute the Gateway properties  
18 to the Hammocks in exchange for its partnership interest in the  
19 Hammocks has resulted in additional loss of ten and one half  
20 million dollars." Do you see where I read that?

21 A No.

22 Q It's at the very top?

23 A Yeah.

24 Q So paragraph 1 talks in terms of 42 million and then  
25 paragraph 2 talks in terms of 3.5 million and then 10.5 million.



1 A Right.

2 Q Did I read that right?

3 A Right.

4 Q Paragraph number 3 refers to a failure to contribute

5 its pro rata share on the mortgage payments or taxes. Do you

6 know how much that failure was?

7 A It's about 600 and some odd thousand dollars.

8 Q What's the basis of that?

9 A How much money other people put in.

10 Q And what he should've paid?

11 A Uh-huh.

12 Q Is that a yes?

13 A Yes.

14 Q Number 4, "When financing was available through

15 Shawn Jacobs, you refused to sign loan documents on behalf of

16 Gateway, therefore contributing to the foreclosure of RHI

17 against the Hammocks." Who is Shawn Jacobs?

18 A He was one of the brokers that we were dealing with,

19 he had a private loan lined up so it was expensive money but it

20 would have gotten us out from under the Michels and since he

21 hadn't signed the Gateway Park Properties over to The Hammocks

22 then Gateway Park Properties had to sign on that agreement and

23 he wouldn't do it so.

24 Q When was that financing made available to you?

25 A In January of '07, I think. No, January of '08.

1 Q How much would that loan have been for?

2 A 8-something million.

3 Q Were you guaranteed those funds except for the fact  
4 that he wouldn't sign the document?

5 A No. We weren't really guaranteed it but supposedly  
6 it was lined up.

7 Q What company does Shawn Jacobs work for?

8 A Some company out in LA.

9 Q Who dealt with Shawn Jacobs on behalf of The  
10 Hammocks?

11 A I did.

12 Q What loan documents did Mr. Sloggart refuse to sign?  
13 Was it a loan application?

14 A No. It was an agreement, a loan agreement.

15 Q Do you have a copy of that loan agreement?

16 A No, I sent it to him.

17 Q You sent it to Sloggart?

18 A Uh-huh.

19 Q Is that a yes?

20 A Yes.

21 Q So you used the word "him" and then said "uh-huh" so  
22 I'm trying to---

23 A I don't have a copy of it. I sent the copy to  
24 Sloggart.

25 MR. PAYNE: What he's trying to tell you is when you

1 go "uh-huh" and it's that lady's job and it's hard enough  
2 becomes next to impossible.

3 Q And when you use the term "him," we're talking about  
4 a lot of people here so if we can try to be fact specific. So  
5 Shawn Jacobs sent you a loan agreement and then you forwarded it  
6 on to Sloggart?

7 A Right.

8 Q You didn't keep a copy of it?

9 A No.

10 Q Paragraph 5 refers to you illegally deducted losses  
11 from the Hammocks on Gateway's interest. How do you know that,  
12 sir?

13 A Because he filed his taxes based on our Hammocks  
14 returns.

15 Q And your position is that he shouldn't have done  
16 that?

17 A Well, not unless he had put that land in initially.

18 Q So he was claiming losses that The Hammocks suffered  
19 when he shouldn't have?

20 A Right.

21 Q How do you know that?

22 A Cause I saw his tax returns.

23 Q How did you see his tax returns?

24 A He gave them to me to put in for applications for  
25 loans and things.

1 Q But you don't have those tax returns anymore?

2 A No. I just make a copy and send them to the people.

3 Q Okay. Did you have tax returns from the other  
4 partners as well?

5 A My sister Virginia, yes.

6 Q Paragraph 6 says, "When RHI was listed for sale,  
7 Gateway wrongfully refused to sign the listing agreement thereby  
8 making it impossible to do anything with the property, to the  
9 great detriment of the Hammocks and therefore leading to the  
10 foreclosure against the Hammocks." What listing agreement did  
11 he refuse to sign?

12 A On the land we had people interested in buying it  
13 and listing it with a broker.

14 Q When you say "the land," are you talking about the  
15 42 acres?

16 A The 42 acres, yeah. And he wouldn't sign that  
17 listing agreement. I did sign for him and we went on and listed  
18 it.

19 Q You signed his name?

20 A No, I signed my name.

21 Q I see. Because he wouldn't sign the listing  
22 agreement you couldn't sell the land?

23 A We couldn't put it on the market until I went on and  
24 signed the agreement for Gateway Park Properties and so we did  
25 list it and we had a lot of interest in it and then the economy

1 collapsed, this was last year and the listing finally ran out.

2 Q But this letter says because he refused to sign it  
3 became impossible to list it for sale, is that true?

4 A Right. It's true.

5 Q But you said you signed it---

6 A I did and I told the broker that, you know, any deal  
7 we had it would depend on getting him to sign it but he took it  
8 any way.

9 Q Did you have the authority to sign on behalf of  
10 Gateway Park Properties?

11 A No, I did not.

12 Q But you signed your name to it?

13 A Yes.

14 Q The letter then says that, "The Hammocks is willing  
15 to settle all of its damages by the payment of \$9,000,000 in  
16 cash". Did you get a response back to this letter?

17 A No. The only thing we got back was he did  
18 supposedly deed his Gateway Park Properties to The Hammocks and  
19 that was it.

20 Q By the way, sir, have you ever met with anybody with  
21 any taxing authority where there was some discussions about the  
22 money that was owed by The Hammocks?

23 A Yes, the State Bureau of Investigation, we met with  
24 them a number of times.

25 Q The State Bureau of Investigation---

1 A I mean---

2 Q Let me finish the question. The State Bureau of  
3 Investigation people associated with the fire or with the taxing  
4 issues?

5 A With the tax issues.

6 Q When did that meeting take place?

7 A Earlier this year.

8 Q 2009?

9 A Right.

10 Q Before the fire?

11 A Yes.

12 Q Where did that meeting take place?

13 A Down at the inn.

14 Q Were you represented by counsel?

15 A No.

16 Q How many people did you meet with from SBI?

17 A Two. Well, I assume they were SBI but I think they  
18 really were revenue investigators. They went through our books  
19 and also the accountant's books on us.

20 Q Did they tell you how much you owed in back taxes?

21 A At that time, yes.

22 Q How much did they tell you?

23 A I don't remember.

24 Q Did they ask you why the taxes hadn't been paid?

25 A Sure. Yes.

1 Q What did you tell them?

2 A We didn't have the money to pay it.

3 Q When you say "we," are you talking about The  
4 Hammocks?

5 A The Hammocks, yeah.

6 Q Did they say what would happen if you didn't pay  
7 them?

8 A No. They said I could be put in jail maybe but, you  
9 know, they...

10 Q So they did bring up the idea that you could be  
11 facing---

12 A If I was---

13 Q Let me finish my question, sir. Did they bring up  
14 the idea that you could be facing criminal prosecution if you  
15 didn't pay these taxes?

16 A Right.

17 Q You personally?

18 A Yes.

19 Q Did that make you think you needed to pay these  
20 taxes and find ways to do it?

21 A There's no money to pay it. Then they called me and  
22 said they weren't going to prosecute.

23 Q They said they wouldn't prosecute?

24 A Right.

25 Q When did they call you and tell you that?

1 A Back in February.

2 Q Any other conversations with them?

3 A Not after that.

4 Q So they said they're not going to prosecute you but you  
5 still owe us money?

6 A Yes. We readily admitted we owed them money.

7 Q Did they say why they weren't going to prosecute?

8 A No, they just said they didn't feel like it was a  
9 criminal case.

10 Q Did you have any discussions with your Hammocks'  
11 members that you were being threatened with criminal prosecution  
12 and that arrangements should be made to pay these taxes?

13 A No.

14 Q How come?

15 A Well, I knew Jim Sloggart wasn't going to do  
16 anything and my sister didn't have any money at the time.

17 Q When you say "your sister," are you talking about  
18 Virginia Love?

19 A Right.

20 Q You said at the time, does she have more money now  
21 as opposed to then?

22 A She gets bonuses in February so she had some after  
23 that.

24 Q Have you or your sister made arrangements to pay  
25 those taxes?



1 A No, we have not.

2 Q This will be 8. Mr. Gray, are you familiar with  
3 Exhibit 8?

4 (Thereupon, Exhibit Number 8 is marked for  
5 identification.)

6 A I've seen it, yeah.

7 Q Was this deal consummated?

8 A No.

9 Q Why not?

10 A I don't know. They pulled out of it at some point.

11 Q You have no idea why they pulled out of the deal?

12 A No. I sold it to somebody else.

13 Q You sold it to someone else?

14 A Yeah.

15 Q Did you accept this proposal?

16 A Yes.

17 Q So can you tell me why if you accepted the proposal  
18 you then sold it to someone else?

19 A Because they pulled out of it. I told you.

20 Q I think what you testified to, sir, maybe I  
21 misunderstood your testimony when I said why didn't this deal go  
22 through and you said I sold it to someone else?

23 A No. I said they pulled out and I sold it to  
24 somebody else.

25 Q So it was them pulling out not you?

1 A Right.

2 Q Do you know how much you sold the property for  
3 that's part of this deal here?

4 A No.

5 Q But it was less than 4.5 million?

6 A Would you state that over again?

7 Q It was less than 4.5 million?

8 A No. State your other question.

9 Q Sure. The party that you eventually sold it to you  
10 said you don't know how much you sold it for and then I said was  
11 it less than 4.5 million?

12 A No. It was like 16 million but they assumed all the  
13 loans and everything. And this was a contract that gave us  
14 4,500,000 cash and then they took the property and the loans on  
15 it and everything or refinanced those.

16 Q So what I think you're telling me is the deal that's  
17 evidenced by Exhibit 8 would have been a net payment to you of  
18 4.5 million?

19 A Right. Yes.

20 Q How much did you net from the sale to the other  
21 group?

22 A Less than 4 million. Or thereabouts.

23 Q How soon after did you sell the property to this  
24 other group?

25 A September of -- I mean in February of '07 is when

1 they closed.

2 Q Okay. This is nine. Dr. Gray, can you tell me what  
3 Exhibit 9 is?

4 (Thereupon, Exhibit Number 9 is marked for  
5 identification.)

6 A This is an appraisal that we had just before we  
7 bought it done.

8 Q Who commissioned this appraisal?

9 A I did.

10 Q The appraisal has on page 2 of it or page 3 there's  
11 a Bates stamped number RHI0311. It's a letter sent to Trent  
12 Bradshaw at First Carolina Bank. Do you see what I'm talking  
13 about?

14 A Right.

15 Q So the appraisal's being sent to North Carolina Bank  
16 -- I'm sorry. First Carolina Bank, right?

17 A Right.

18 Q Why was it being sent to First Carolina Bank?

19 A Because we were trying to finance it through them at  
20 first.

21 Q Did they refuse to finance it?

22 A Yes.

23 Q I think at some point I asked you how many different  
24 types of loans had you tried to arrange for this and you told me  
25 there were 50 loans?

1 A Probably yes.

2 Q I think you also told me that the reason you didn't  
3 get the 50 loans was because of the poor performance of the inn  
4 and you gave me a second reason?

5 A Polybutylene piping.

6 Q So either one of those reasons the reason why First  
7 Carolina Bank didn't go through with the loan?

8 A This loan was applied for before we bought it. And  
9 the inn had been operating at a deficit for a long time. They  
10 didn't know about the polybutylene piping and I didn't know  
11 about it either for years.

12 Q So why did First Carolina Bank tell you they weren't  
13 giving you the funding for this particular transaction?

14 A Because of the negative cash flow on the property  
15 under the Michels.

16 Q Now this appraiser refers to Richmond Hill Inn as a  
17 diamond in the rough, do you remember reading that?

18 A No, I don't. Oh I see it now.

19 Q Did the values that are referred to in the report,  
20 did they seem to be accurate values based on what you were  
21 buying the property for?

22 A I thought at the moment the inn values were probably  
23 close to correct. I'm not a contractor but the land values  
24 seemed a little bit on the low side considering the potential of  
25 what we could get it zoned for once you got it zoned.

1 Q Did you have the zoning at the time that this report  
2 was written?

3 A No.

4 Q Whose handwriting is on this report?

5 A I have no idea. It's not mine.

6 Q On page 26 of the report, right above the heading  
7 that says, "Highest and Best Use of Vacant Land."

8 A Yes.

9 Q There's a paragraph that says, "In analyzing the  
10 feasible use of the subject property, we have considered the  
11 factors previously listed. The property contains a total of  
12 approximately 54.5 acres of which approximately 13 are allocated  
13 to the Inn and the property is located in the historic district,  
14 which is characterized primarily by residential and office  
15 facilities. In view of this, we believe a bed and breakfast  
16 facility or Inn is considered economically feasible under  
17 current market conditions." Do you remember reading that when  
18 this was written?

19 A No.

20 Q Did you know that they said that the inn was  
21 economically feasible?

22 A I think it should have been. I didn't know they  
23 said it but I thought it should have been.

24 Q But at the time it wasn't, right?

25 A It wasn't.

1 Q There are some projections about rate occupancy,  
2 occupancy rate, that sort of thing in the report. Did you look  
3 at any of those aspects?

4 A I did. Most of those I think came from Bland  
5 Holland.

6 Q Now, this appraisal was written prior to you  
7 actually consummating the deal with the Michels, correct?

8 A Yes.

9 Q As I understand it when you couldn't get the  
10 financing from this bank you then approached the Michels about  
11 them financing what you couldn't afford to pay for?

12 A Well, we tried several banks, it wasn't just this  
13 bank and I went back to them and said we can't get the financing  
14 and actually was canceling the contract and then I don't know  
15 how their financing came up whether it was through Bland Holland  
16 or Connie Munden or my approaching them but I don't think I had  
17 approached them directly on that without somebody else saying go  
18 do it because they'd indicate they will do that. But they did  
19 agree to that.

20 Q So you think they initiated the discussions that  
21 they would agree to owner financing?

22 A Either Bland Holland did or Connie Munden did.

23 Q What were the terms as you understood them when they  
24 were going to owner finance it? How long would they owner finance  
25 it for?

1 A For a year.

2 Q For one year?

3 A Right.

4 Q Was it an interest only loan?

5 A Right.

6 Q What happened after that?

7 A In terms of what?

8 Q Okay. That wasn't a very clear question so thank  
9 you. Let's go back. Over the course of that one year you had a  
10 plan to get financing in place?

11 A Yes.

12 Q What was that plan?

13 A To get the inn up where it was being productive and  
14 more profitable. It had been allowed to be neglected for a  
15 number of years and it was showing some decay to some degree.  
16 Everything needed to be upgraded pretty much. And Bland Holland  
17 was the innkeeper who we were required to keep by the Michels  
18 along with Carol Ann Labowski and actually all the employees we  
19 were required to keep if they were going to finance it. But again  
20 he assured us he could turn it around and cover the debt on it  
21 and then at the end of the year we would have some money to put  
22 into it and by then we should have closed on the assisted living  
23 originally that was the original contract and would've paid the  
24 loan down by \$2 million or more. And then in April I looked at  
25 the financial things that finally came out and everything was

1 just a mess and I started trying to figure out what was going on  
2 and it turned out we were spending about \$300,000 more than we  
3 knew about plus he had given himself five raises and---

4 MR. PAYNE: When you say he.

5 THE WITNESS: Bland Holland.

6 A Plus he had raised all the employees -- Bland  
7 Holland had raised all the employees and as a result of that  
8 that was another \$80,000 in expenses that occurred up to that  
9 point.

10 Q I'm going to take that one year story answer back and  
11 break it down in little pieces, okay?

12 A Okay.

13 Q So the owner financing was a swing loan until you  
14 could get permanent financing in place?

15 A Correct.

16 Q You thought you were going to get the inn profitable in  
17 that year?

18 A Correct.

19 Q April you get some kind of information that showed  
20 you the inn was performing a lot worse than what you thought?

21 A Correct.

22 Q How much did you think the inn was operating at a  
23 deficit at the time you purchased it?

24 A Somewhere under \$100,000.

25 Q So you thought they were losing \$100,000 a year when



1 you purchased it?

2 A Yeah.

3 Q And in April you figure out it's closer to \$400,000  
4 a year?

5 A At that point, we were losing more than that like  
6 \$600,000.

7 Q By April you had already lost \$600,000?

8 A Yes.

9 Q And that was more than you thought it was going to be?

10 A Right. We anticipated 200 or 300 maybe.

11 Q Before April of 2006 you didn't realize it was that  
12 bad?

13 A No.

14 Q You also planned to sell the property in Charlotte  
15 to pay for a portion of paying what the Michels still held?

16 A Yes.

17 Q And you were going to get funding for whatever you  
18 couldn't pay down?

19 A Right.

20 Q Is that when you applied for those 50 loans? Better  
21 said applied for loans from 50 different institutions?

22 A We applied for many loans then. But that's not the  
23 time we applied for 50 loans. That was in '07.

24 Q So in '06 you applied for many loans?

25 A Right.

1 Q None of those were approved?

2 A Right.

3 Q How many -- give me -- was it 10?

4 A Probably more than that but I can't -- but not too  
5 many more than that, 10 to 15 maybe.

6 Q Do you know much you were looking for for financing?

7 A At that point, the property hadn't sold so 8.8  
8 million.

9 Q And you hadn't sold this piece of property that we  
10 just looked at where Chain Bridge was involved, right?

11 A Correct.

12 Q You didn't sell it until 2007?

13 A Right.

14 Q So that wasn't helping the situation either?

15 A Correct.

16 Q So it came time to make good on the loan after the  
17 one year swing loan with the Michels, when did you start to tell  
18 them you were having trouble?

19 A I let Mr. Holland go and they immediately came up  
20 here and so I told them then I had been trying to get financing  
21 and hadn't been able to.

22 Q Let me stop you there. At the time you let Mr.  
23 Holland go was the first time you told the Michels that you were  
24 having a hard time getting financing?

25 A Right. That was July.

1 Q Did you tell that to both of them?

2 A Yes.

3 Q In July of '06?

4 A Right.

5 Q What was their reaction at that point?

6 A Basically, their reaction is always the same, we  
7 want our money.

8 Q If you were having a hard time getting financing and  
9 you couldn't sell the property to pay for part of it, what was  
10 your reaction to them?

11 A Just listened to them pretty much and tried to  
12 continue to get loans and then as the day got closer, I went to  
13 a lawyer to write their lawyer to see if we could arrange an  
14 extension.

15 Q What lawyer did you go to?

16 A Albert Sneed.

17 Q This would've been around October of '06?

18 A September.

19 Q Who secured the extension from them?

20 A Their lawyer. I gave them \$100,000 and they  
21 extended it till January of '07 at which point we had to pay up  
22 another 2 million or the 900,000.

23 Q Did you pay that payment by January?

24 A (Witness nods head yes.)

25 Q Is that a yes?

1 A Yes.

2 Q January of '07 you paid 2 million?

3 A 1,900,000.

4 Q You already paid \$100,000?

5 A Yes.

6 Q So at the time that you paid that \$2 million, had

7 you sold the property that was referred to in this Chain Bridge

8 transaction?

9 A I sold the land part.

10 Q And you sold that for 2 million?

11 A Yeah. Basically.

12 Q All right. So we're doing fine from the chronology

13 standpoint. And that 2 million then goes to pay that \$2 million

14 promise, correct?

15 A Right.

16 Q So at that point, you now owe them \$6.8 million?

17 A Correct.

18 Q Was the idea that in October of 2007 they were going to

19 get paid the 6.8 million?

20 A Yes.

21 Q That's when you applied for the loans from the 50

22 different banks?

23 A No. We started applying in April or February

24 something like that.

25 Q But the idea that you were going to have to pay this

1 off in October of 2007?

2 A Right.

3 Q So then you weren't able to get financing?

4 A No.

5 Q When did you start to have the conversation with the  
6 Michels that you couldn't pay this obligation in October of  
7 2007?

8 A Summer of that year. Summer of '07.

9 MR. PAYNE: You mean '08.

10 THE WITNESS: No. '07.

11 Q It's '07. Who did you have that conversation with?

12 A The Michels.

13 Q Directly?

14 A Yes.

15 Q Is this over the phone or in person?

16 A In person. They came up here about every 2 or 3  
17 months and stayed overnight with me.

18 Q What was their reaction at that point?

19 A They want their money.

20 Q Were they going to extend the---

21 A No, they never agreed to.

22 Q So when it came time in October of 2007 to make good  
23 on this commitment?

24 A I told them we couldn't do it and they just kept  
25 taking the payments on it.

1 Q They kept taking the interest payments?

2 A Right.

3 Q Before October of 2007 had they ever issued a notice  
4 of foreclosure?

5 A No.

6 Q When was the first time you received a notice of  
7 foreclosure?

8 A Dr. Michels wrote a personal one in February of '08.

9 Q Were you behind at that point?

10 A No.

11 Q The premise for the foreclosure notice----

12 MR. PAYNE: Excuse me. Do you mean behind other  
13 than the fact the note had matured?

14 MR. NELSON: Yeah. I'm sorry.

15 MR. PAYNE: Okay.

16 Q Let's make sure. The note had matured by October of  
17 2007 but you're still making interest payments?

18 A That's correct.

19 Q You hadn't fallen behind on the interest payments  
20 before the February '08 letter from Dr. Michels to you?

21 A No. No.

22 MR. NELSON: Were you able to get all that in proper  
23 sequence?

24 Q Okay. So after you received that notice of  
25 foreclosure what happened?

1           A       I continued to make the payments. And then I  
2       finally got a contract. I sent -- I always let them know what  
3       was going on so I'd send copies of things to them. But I sent a  
4       copy of the contract to them and continued to make the payments.  
5       They had their lawyer contact the buyer's lawyer just to verify  
6       it.

7           Q       Is this the Florida Keys folks?

8           A       Right.

9           Q       Okay. And did they have a reaction to you sending  
10       them this contract?

11          A       (Witness nods head no.)

12          Q       Is that a no?

13          A       Not that I'm aware of. Nothing directly to me.

14          Q       So while you were trying to consummate the deal with  
15       the folks from the Florida Keys and I keep saying Florida Keys  
16       cause there's another Florida group, right?

17          A       Right.

18          Q       So while you're trying to consummate the contract  
19       with the Florida Keys folks, were you making payments on the  
20       interest?

21          A       Oh yes.

22          Q       Now the folks from the Florida Keys backed out of  
23       the deal when?

24          A       The latter part of September. I mean excuse me.  
25       The latter part of July.

1 Q Of?

2 A '08.

3 Q Did you notify the Michels that they backed out?

4 A Yes, I did.

5 Q From February until July did you get any more  
6 notices of foreclosure?

7 A No.

8 Q After that July sale -- after the July notice to  
9 them the sale had fallen through, did they have a reaction of  
10 any kind?

11 A They came up here in August, we met and talked, they  
12 didn't say anything one way or the other, I explained to them I  
13 was listing it on an international basis with Prudential  
14 International and continue to make the payments to them. In  
15 September they sent us -- their lawyer up here sent us a  
16 foreclosure or a demand letter I guess it was at that point.  
17 And at the time the demand letter was sent we were still current  
18 with payments.

19 Q I'm sorry, when did you have this meeting with the  
20 folks from the SBI or the revenue services where they told you  
21 you could face criminal prosecution?

22 A In January or February of this year.

23 Q So September of '08 there's a demand letter and then  
24 is there another notice of foreclosure?

25 A Yes. I think they gave us 30 days or something like



1 that.

2 Q Is that through Marjorie Mann?

3 A Yes, it is.

4 Q Then at the expiration of the 30 days did they start  
5 foreclosure proceedings?

6 A I think so, yeah.

7 Q Is that why you met with Attorney Gray?

8 A Yes.

9 Q Let's go to the lawsuit that you commenced against  
10 the Michels, when did that happen?

11 A I guess I went to Albert Sneed to get him to file  
12 it, he didn't want to file it.

13 MR. PAYNE: Now listen. I'm going to advise you not to  
14 say anything that your lawyer said to you. That's not what he's  
15 asking you. He asked you when the lawsuit started.

16 THE WITNESS: The lawsuit started prior to October  
17 15th when we got an extension to file the lawsuit because of due  
18 diligence -- I mean -- three months -- three years---

19 MR. PAYNE: No, it's not. Can we go off the record,  
20 Mike?

21 MR. NELSON: Yeah.

22 (Discussion off the record.)

23 Q So when did you apply to the court for this  
24 extension of time? Do you know?

25 A I believe the lawyers applied prior to October.

1 Prior to the 15th.

2 Q But the idea was that you needed to make sure you  
3 stayed within the three-year statute of limitations?

4 A That's right.

5 Q Had you at any point put either Bland Holland or the  
6 Michels on notice that you considered the transaction that you  
7 entered into with them, and when I say "you," I'm talking about  
8 The Hammocks, that you considered the transaction that you  
9 entered into with them to buy the Richmond Hill Inn to be  
10 fraudulent?

11 A Yes.

12 Q How did you put them on notice of that?

13 A One time we were discussing the extension on the  
14 note and I just said, "If, you know, you foreclose on it I'm  
15 going to file Chapter 11 and file these lawsuits." And Albert  
16 Sneed who was our lawyer at the time sent a letter to their  
17 lawyer basically saying the same thing.

18 MR. NELSON: Counsel, I don't think I've seen that  
19 letter.

20 THE WITNESS: I don't have that letter.

21 MR. PAYNE: I don't know that I've seen it. Are you  
22 talking about a demand letter from Albert?

23 THE WITNESS: No. Not a demand letter. Just simply  
24 saying this and then that's when they extended the note for  
25 another year.

1 MR. PAYNE: He's talking about in '08. Can we go  
2 off the record for a second?

3 (Discussion off the record.)

4 Q Dr. Gray, why don't you tell us what you think was  
5 in Sneed's letter to the Michels or whoever he wrote it to on  
6 behalf of the Michels?

7 MR. PAYNE: Can I ask a question? Did -- do you  
8 remember if this letter went to the Michels or did it go to  
9 somebody at Robert Stevens?

10 A No, it went to Abell who's their lawyer in  
11 Greensboro.

12 Q Can you characterize what the letter said?

13 A No, not very well.

14 Q Can you characterize it in any way?

15 A Basically, that if they foreclosed on it we were  
16 going to file for Chapter 11 because we'd already talked to David  
17 Gray at that point too. And they had withheld information  
18 regarding the condition of the property or something like that.  
19 Polybutylene piping.

20 Q Did Attorney Sneed also send notice of any kind  
21 prior to October of '08 to Holland that he was part of the  
22 fraud?

23 A We had sued Holland prior to that, yes, on another  
24 case.

25 Q For a different issue. That was all about whether